

**AR43**

**Finning Tractor & Equipment  
Company Limited**

**FINNING**

**Annual Report 1972**

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## Directors, Officers and Management Group

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### DIRECTORS

H. CLARK BENTALL

*President, The Dominion Construction  
Company Limited, Vancouver*

ROBERT C. BISS\*

*Vice President, Finning Tractor & Equipment  
Company Limited, Vancouver*

JOHN D. FRAZEE\*

*Vice President, Finning Tractor & Equipment  
Company Limited, Vancouver*

JOHN C. GILMER

*President and Chief Executive Officer,  
CP Air, Vancouver*

THOMAS E. LADNER, Q.C.

*Partner, Ladner Downs, Vancouver*

RICHARD E. LANE\*

*Executive Vice President, Finning Tractor &  
Equipment Company Limited, Vancouver*

J. ROSS LEMESURIER

*Vice President, Wood Gundy Limited, Toronto*

VINOD K. SOOD\*

*Vice President, Finning Tractor & Equipment  
Company Limited, Vancouver*

W. MAURICE YOUNG\*

*President, Finning Tractor & Equipment  
Company Limited, Vancouver*

### OFFICERS

W. MAURICE YOUNG, *President*

RICHARD E. LANE, *Executive Vice President*

ROBERT C. BISS, *Vice President Parts and Service*

JOHN D. FRAZEE, *Vice President Sales*

VINOD K. SOOD, *Vice President Finance*

RONALD W. PARK, *Secretary*

### OPERATIONS, DIVISION AND STAFF MANAGERS

W. F. Holmes, *Manager, Interior Operations*

D. W. Lord, *Manager, Coastal Operations*

R. W. Stewart, *Mining & Major Accounts*

J. J. Blunt, *Houston*

J. A. Carthy, *Dawson Creek*

P. Clarke, *Inuvik*

G. M. Correale, *Nelson*

N. T. Haugom, *Vernon*

G. R. Kincade, *Terrace*

B. A. McDowell, *Williams Lake*

B. M. Moore, *Kamloops*

A. V. Scribner, *Cranbrook*

T. A. Shorter, *Prince George*

P. R. Basaraba, *Air Products Division*

L. R. Broderick, *Crane & Excavator Division*

A. E. Holden, *Light Industrial Division*

M. W. Kooting, *Lift Truck & Systems Division*

B. W. Michael, *Engine Division*

R. M. Kaye, *General Parts Manager*

G. F. Kiss, *General Service Manager*

B. I. Davis, *Vancouver Service Manager*

T. R. Motteler, *Parts & Service Sales Manager*

A. Coe, *Sales Development*

E. G. Inglis, *Training*

P. J. Kelly, *Used Equipment*

R. C. Ley, *Advertising & Public Relations*

C. C. Loyst, *Personnel*

J. J. Mulvaney, *Used Equipment Administration*

D. L. Christie, *Administration*

C. A. Harris, *Data Processing*

H. H. Lunow, *Purchasing*

L. E. Norlander, *Accounting*

J. N. Pike, *Systems*

R. S. Scott, *Credit*

A. M. Steele, *Audit*

P. G. von der Porten, *Budgets*

\*Member of Executive Committee



AR43



**FINNING**

# INTERIM REPORT

TO THE  
SHAREHOLDERS

FOR THE SIX MONTHS ENDED  
JUNE 30, 1972



# President's Report

August 1, 1972

To the Shareholders:

Revenue for the first half of 1972 totalled \$58,759,000 as compared to \$44,220,000 for the same period in 1971. This is an increase of 33% and marks the most successful six months' operation in the history of the company.

Net profit after tax increased from \$1,553,000 to \$2,534,000, or 63%. This amounts to \$1.30 per share for the first half of 1972.

Much of the increase in revenue came from the forest industry with an upturn in lumber demand and from the heavy construction industry with increased spending for highways, railway extension and power projects. Improvement in net profit is attributable to the lower cost of money and the fact that the increase in sales volume was not accompanied by a corresponding increase in overhead.

You will note a decrease of \$737,000 in working capital. This results largely from an increase in our equipment leasing activity and we have arranged additional bank lines of credit for this purpose.

Our capital expenditure program for the year has been interrupted by the labour dispute within the building construction industry. This has delayed construction of new facilities in Vernon and Vancouver and has affected our operations in these areas.

A substantial number of heavy construction projects are planned and we expect to benefit from these in the latter part of 1972 and through 1973. Indications are that we can expect the same level of general activity for the balance of the year provided the labour strife, which has already affected our results, can be brought to an early settlement.

All of the companies' employees have put forth an excellent effort. They have made this impressive growth possible.

*W. M. Young*  
W. M. Young,  
President.

## FINNING TRACTOR & EQUIPMENT COMPANY LIMITED AND SUBSIDIARIES

### Summary of Consolidated Operating Results

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1972	1971	1972	1971
(thousands of dollars)				
Revenue	\$ 32,703	\$ 25,691	\$ 58,759	\$ 44,220
Cost of sales and operating expenses	29,735	23,812	54,007	41,038
Income before income taxes	\$ 2,968	\$ 1,879	\$ 4,752	\$ 3,182
Provision for income taxes	1,379	962	2,218	1,629
Net income	<u>\$ 1,589</u>	<u>\$ 917</u>	<u>\$ 2,534</u>	<u>\$ 1,553</u>
Net income per Common Share	\$ .82	\$ .47	\$ 1.30	\$ .80
Net income as a percentage of revenue	4.9%	3.6%	4.3%	3.5%
Weighted average number of Common Shares outstanding during the period	1,944,640	1,944,000	1,944,320	1,944,000

### Consolidated Source and Application of Funds

#### SOURCE OF FUNDS:

SIX MONTHS  
ENDED JUNE 30  
1972 1971  
(thousands of dollars)

From operations—		
Net income	\$ 2,534	\$ 1,553
Add charges not requiring the outlay of funds—		
Depreciation—		
Equipment leased to customers	1,906	2,080
Fixed assets	513	422
Deferred income taxes	332	161
Total funds from operations	\$ 5,285	\$ 4,216
Sale of fixed assets	39	55
Other	13	—
	<u>\$ 5,337</u>	<u>\$ 4,271</u>

#### APPLICATION OF FUNDS:

Additions—		
Equipment leased to customers, net of disposals	\$ 4,206	\$ 884
Fixed assets	448	823
Decrease in long-term debt, net	1,128	1,287
Dividends paid	292	194
	<u>\$ 6,074</u>	<u>\$ 3,188</u>
Increase (decrease) in working capital	(737)	1,083
WORKING CAPITAL, JANUARY 1	\$ 12,707	\$ 10,361
WORKING CAPITAL, JUNE 30	<u>\$ 11,970</u>	<u>\$ 11,444</u>

The above figures are subject to year-end adjustments and audit.



## A Year of Continuing Growth

### 1972 RESULTS IN BRIEF

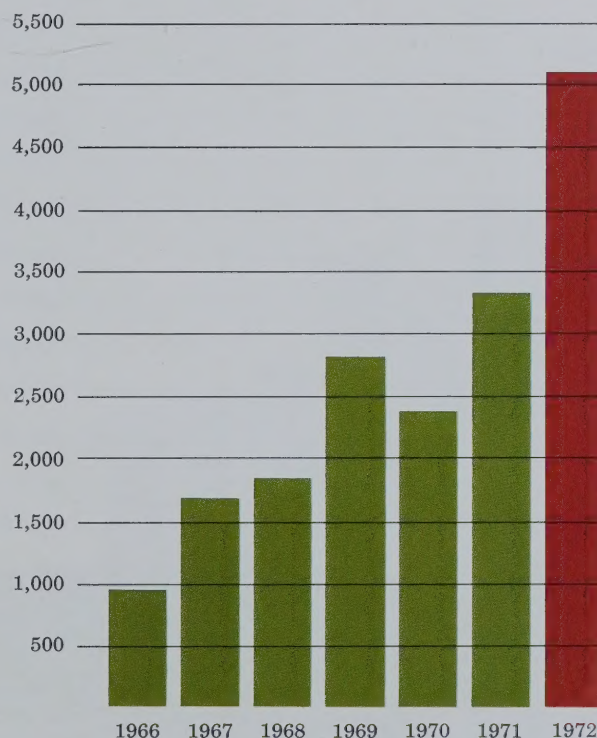
(thousands of dollars)

Revenue .....	\$126,622
Income before income taxes .....	9,732
Net income .....	5,084
Capital expenditures .....	2,552

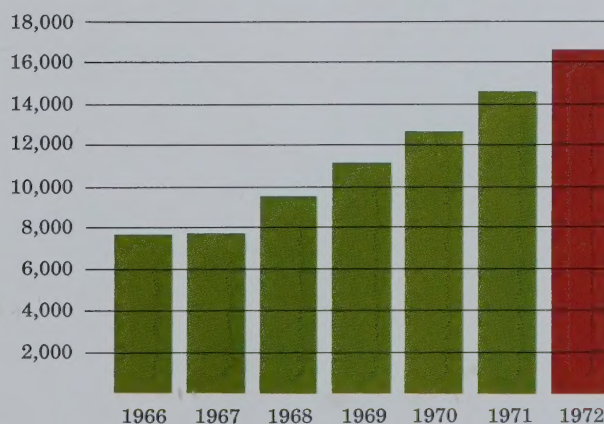
Net income per share* .....	\$ 1.31
Net income as a percentage of revenue ..	4.0%
Number of employees at year end .....	1,373

\*Based on the number of Common Shares outstanding at December 31, 1972 after making appropriate adjustments for the subdivision and issue of Common Shares during 1972.

NET INCOME  
in thousands of dollars



INVESTMENT IN FIXED ASSETS—AT COST  
in thousands of dollars



COVER PHOTO: The camera's fish eye lens gives an unusual view of a common British Columbia industrial scene—a Caterpillar D8 Tractor building access roads.



## To the Shareholders

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The results for 1972 are most gratifying. Our revenues reached \$126,622,000, up 38% over 1971. Net income after tax rose 55% to \$5,084,000, or \$1.31 per share. This record volume was due to the high level of general economic activity, particularly in the forest industry.

It is interesting to note that these results were achieved during a time of price stability in the equipment industry. The effect of the price freeze in the United States, combined with the strength of the Canadian dollar, tended to keep machine and parts prices the same as, or lower than, the year previous.

Our ability to handle the large increase in volume was a result of the capital expenditures in plant and equipment and the training effort and expense incurred in previous years under our commitment to long term planning.

Our parts and service operations showed steady growth. We continue to improve our parts service to all customers throughout the province and the Northwest Territories and our "Total Service Concept" is receiving increased acceptance.

In a year of record results, our merchandising of used equipment was no exception. Used equipment sales were the highest in the company's history and we were able to improve our profitability. This market remains very buoyant.

Our Air Products Division (the G. M. Philpott companies) has enjoyed spectacular growth in terms of sales volume and profit. We are pleased that this acquisition has exceeded our short term expectations.

Employment rose from 1,180 to 1,373 and, in a situation of high unemployment both provincially and nationally, we experienced difficulty in obtaining people who have the skills we require. We have a large internal training capability and we are utilizing it to its maximum to train apprentice mechanics and improve the skills of other personnel.

During the year we completed new facilities in Vernon as well as major expansion at Kamloops and Prince George. The new building in Vancouver for our Air Products Division will be ready for occu-

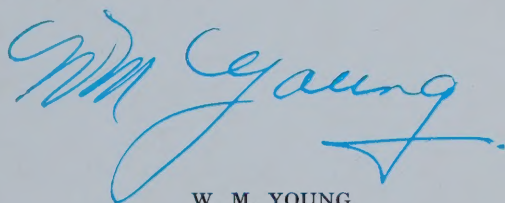




pany in March. In 1973, the major portion of our capital expenditure budget will be spent on expansion and improvement of existing facilities.

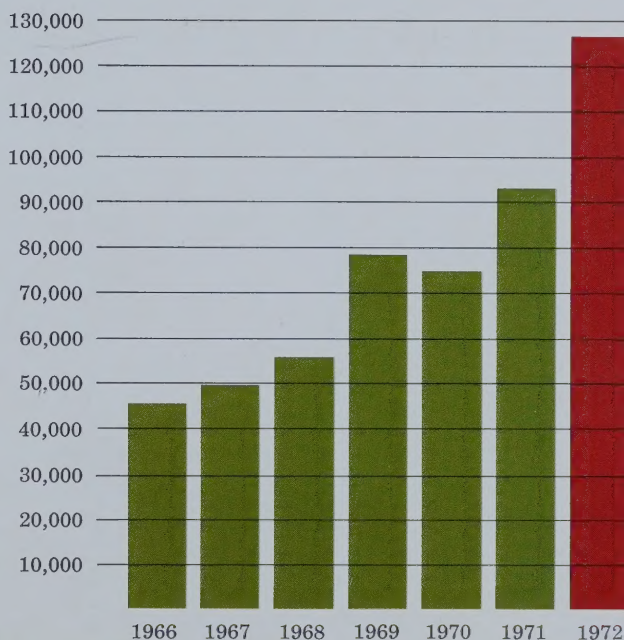
The year 1973 will also see even greater growth in the types of Caterpillar product available to us. First there will be a hydraulic excavator and, later in the year, a new line of small machines, namely the D3 track-type tractor, the 910 wheel loader and the 931 track loader. The market for this new product is large; the competition well-established. While new product introductions like these are opening new markets, other new machines, such as wheel skidders and log harvesters, continue to broaden our traditional markets.

At the close of the year we successfully concluded negotiations on a two-year labour contract and in 1973 we will have to absorb some of the resultant increases in wage and salary costs. There will be some introductory expense for new products and some of our traditional markets may be affected by government policies. Despite these few uncertainties, the overall economic outlook is favourable and we look to a good year in 1973.

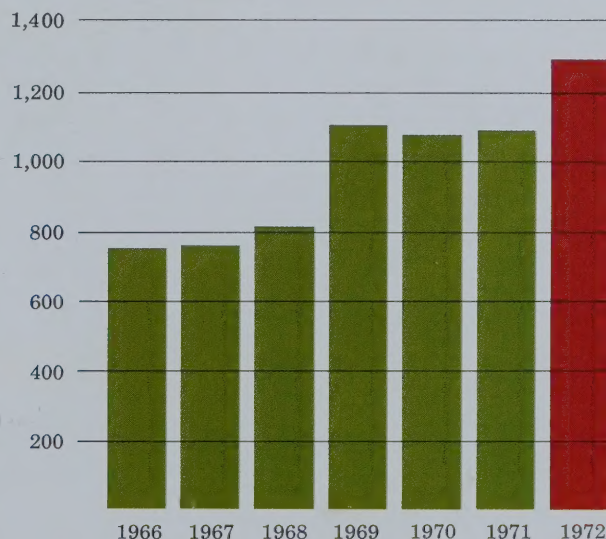


W. M. YOUNG  
*President*

REVENUE  
*in thousands of dollars*



AVERAGE NUMBER OF EMPLOYEES









## A Year of Continuing Growth

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The year 1972 saw the company achieve record revenue, its highest unit volume and increases in all major phases of operation. Results exceeded our forecasts, keyed by substantial gains in the provincial economy and a particularly strong surge in the forest industry.

The market in 1971 was generally one of replacement but this emphasis changed dramatically in 1972 to one of capital equipment purchases. The sales increase accelerated during the last half of the year and a record number of Caterpillar machines was delivered in the last three months.

Several reasons contributed to the company's ability to handle the unprecedented increase in volume. Capital expenditures in previous years for plant and equipment plus our commitment to recruiting and training provided facilities and qualified personnel. This placed us in a superior competitive position and enabled the company to increase its overall share of market.

Although forestry is historically our major market, forest industry sales were markedly higher than usual. British Columbia's forest industry had a very good year. The current boom in North American housing has resulted in excellent lumber prices and a strong demand for lumber, plywood, shingles and shakes. The pulp and paper industry gained ground after a two-year pause and mills were able to reduce large inventories that had been built up.

Equipment sales to Coastal logging operators followed the pattern of previous years but in the Interior, particularly in the Prince George region, several interesting innovations are being studied and developed. The company, in conjunction with manufacturers and logging companies, is participating in the development of several new concepts in tree harvesting.

The trend to mechanized harvesting is dictated by an acute shortage of fallers and chokermen and the need for greater efficiency in handling smallwood. As a result, various types of tractor-mounted tree cutters and feller bunchers have entered the logging scene. These machines are designed for high production, directionally controlled falling and with bunching ability for subsequent efficient transport to loading areas. The development continues with prototypes and some production models in the field.

*The Caterpillar track-type tractor is still the basic earth-moving tool. Record track-type tractor sales in 1972 almost equalled all Caterpillar product sales in the previous year.*



*Caterpillar motor graders maintain high speed logging, mining and construction haul roads all year round. This model grades logging road in the Bulkley Valley area of north central B.C.*

*Logging companies accelerated their road-building programs in 1972 as they reached back into more remote areas for their timber. This is a typical Vancouver Island access road being built by a 270 horsepower Caterpillar D8 tractor.*





*The North American housing boom created surging demands for all forest products. Plywood plants worked to capacity with Caterpillar wheel loaders used for materials handling duties.*



*The Lift Truck & Systems Division successfully increased its share of market in 1972. A popular application for Caterpillar lift trucks is shown here as two 18,000 pound capacity units load a barge for a Victoria sawmill.*

*A Princeton logger owns one of the first of Caterpillar's 518 wheel skidders in the province. This machine, which hauls logs from stump to loading area, is forerunner of other new Caterpillar wood harvesting equipment to come on stream in 1973.*





## A Year of Continuing Growth

(Continued)

Construction sales were up. The highway segment increased over the previous year and a fair amount of work will carry over into 1973. The British Columbia Railway progressed with its \$68 million, 420-mile rail extension between Fort St. James and Dease Lake. Major work on the Mica storage dam on the Columbia River was completed and the dam is expected to begin storing water by April, 1973. Clearing of transmission line right-of-way from Mica to the Lower Mainland will continue through the current year. A new power project that resulted in sizeable sales of equipment was the Kootenay Canal development. The 500,000 kilowatt plant is scheduled to be operational by 1975 and the project will require further capital equipment and parts and repair services.

Although the value of B.C. mineral production reached an all-time high in 1972, spending in exploration and development decreased sharply and our sales to the mining industry declined. A good replacement market exists and we expect to maintain a sizeable volume in this area. Copper and coal were the two most important minerals in B.C. in 1972. The immediate coal prospects are uncertain but world copper prices have recently shown encouraging recovery signs and the future looks promising.

In oil and natural gas, the pipeline activity of 1971 lessened as Westcoast Transmission completed its \$36.8 million expansion of 86.7 miles of its existing natural gas pipeline plus installation of additional compressor facilities. Pipeline construction is still much in the news and when current studies reach the production stage, we anticipate a promising potential in this market.

The used equipment market, where our "trade-ins" are sold, was buoyant and sales were the highest in history. Operation of this phase of the company's business has been improved in all aspects from procurement through reconditioning to resale and it now contributes to profit. (Continued on page 17)

*Right-of-way for the British Columbia Railway extension from Fort St. James to Dease Lake winds its way through endless stands of timber. The contractor on this section used a fleet of 28 Caterpillar machines.*





## Highlights of Operations

	1972	1971	1970	1969	1968	1967	1966
	<i>(thousands of dollars)</i>						
Revenue.....	\$126,622	\$91,707	\$74,092	\$78,584	\$55,413	\$49,508	\$45,514
Income before income taxes.....	9,732	6,422	4,867	5,671	3,838	3,159	1,829
Net income.....	5,084	3,286	2,384	2,772	1,812	1,681	967
Capital expenditures.....	2,552	1,786	1,630	1,985	1,671	412	847
Net income per share*...	\$ 1.31	\$ .84	\$ .61	\$ .71	\$ .47	\$ .43	\$ .25
Net income as a percentage of revenue..	4.0%	3.6%	3.2%	3.5%	3.3%	3.4%	2.1%
Number of employees at year end.....	1,373	1,180	1,011	1,207	894	765	750

\*Based on the number of Common Shares outstanding at December 31, 1972 after making appropriate adjustments for the subdivision and issue of Common Shares during 1972.



# Consolidated Balance Sheets

December 31, 1972 and 1971

ASSETS	1972	1971
<b>CURRENT ASSETS:</b>		
Cash .....	\$ 21,376	\$ 393,884
Notes and accounts receivable ( <i>Note 3</i> )—		
Instalment notes, at principal balances, including		
\$5,043,366 due after one year (\$3,123,499 in 1971) .....	9,650,146	7,342,787
Accounts receivable .....	14,469,147	10,522,034
Inventories, at the lower of cost or market ( <i>Notes 2 and 4</i> )—		
Equipment .....	19,594,912	20,961,690
Parts and supplies .....	11,098,987	9,219,135
Total current assets .....	<u>\$54,834,568</u>	<u>\$48,439,530</u>
 EQUIPMENT LEASED TO CUSTOMERS, at cost less accumulated depreciation of \$7,126,470 (\$7,589,361 in 1971) ( <i>Note 3</i> ) .....	 <u>\$13,366,172</u>	 <u>\$10,899,378</u>
 <b>FIXED ASSETS, at cost (<i>Notes 3 and 4</i>):</b>		
Land .....	\$ 1,192,404	\$ 1,201,787
Buildings and equipment .....	<u>15,466,764</u>	<u>13,068,998</u>
	\$16,659,168	\$14,270,785
Less—Accumulated depreciation .....	<u>6,682,721</u>	<u>5,662,550</u>
	\$ 9,976,447	\$ 8,608,235
 OTHER ASSETS, at cost .....	 \$ 54,656	 \$ 48,795
 <i>Approved on behalf of the Board:</i> “W. M. YOUNG”, <i>Director</i> “V. K. SOOD”, <i>Director</i>		
	 <u>\$78,231,843</u>	 <u>\$67,995,938</u>



**FINNING TRACTOR & EQUIPMENT  
COMPANY LIMITED**

LIABILITIES	1972	1971
<b>CURRENT LIABILITIES:</b>		
Notes payable—		
Bank (Note 3).....	\$28,386,385	\$23,735,270
Other.....	121,705	763,436
Accounts payable and accruals.....	11,145,038	7,462,187
Income taxes.....	2,052,419	2,108,295
Current portion of long-term debt.....	665,981	1,682,846
Total current liabilities.....	\$42,371,528	\$35,732,034
 LONG-TERM DEBT, net of current portion (Note 4)	 \$ 2,460,660	 \$ 3,864,012
 DEFERRED INCOME TAXES.....	 \$ 5,386,204	 \$ 4,948,169
 <b>SHAREHOLDERS' EQUITY:</b>		
Share capital (Notes 6 and 7).....	\$ 8,626,534	\$ 8,564,887
Retained earnings (Note 8)—		
Balance, beginning of year.....	\$14,886,836	\$12,286,691
Net income.....	5,083,553	3,286,145
Write-off of goodwill on acquisition of subsidiary	—	(200,000)
Dividends paid.....	(583,472)	(486,000)
Balance, end of year.....	\$19,386,917	\$14,886,836
	\$28,013,451	\$23,451,723
	<u>\$78,231,843</u>	<u>\$67,995,938</u>

**Consolidated Statements of Income**  
*for the years ended December 31, 1972 and 1971*

	1972	1971
<b>REVENUE</b> .....	<b>\$126,621,677</b>	<b>\$91,707,069</b>
 <b>EXPENSES (Notes 9 and 10):</b>		
Cost of sales and selling expenses.....	\$107,756,305	\$77,848,182
General and administrative.....	7,006,021	5,447,127
Interest—Current.....	1,796,730	1,524,407
Long-term.....	330,854	465,288
	\$116,889,910	\$85,285,004
Income before income taxes.....	\$ 9,731,767	\$ 6,422,065
 PROVISION FOR INCOME TAXES.....	 4,648,214	 3,135,920
Net income.....	<u>\$ 5,083,553</u>	<u>\$ 3,286,145</u>
 <b>NET INCOME PER SHARE (Note 11):</b>		
Before subdivision.....	\$ 2.61	\$ 1.69
After subdivision.....	\$ 1.31	\$ .84

**Consolidated Statements of  
Source and Application of Funds**  
*for the years ended December 31, 1972 and 1971*

	1972	1971
<b>SOURCE OF FUNDS:</b>		
From operations—		
Net income.....	\$ 5,083,553	\$ 3,286,145
Add charges not requiring the outlay of funds—		
Depreciation—		
Equipment leased to customers.....	3,807,386	4,053,113
Fixed assets.....	1,089,042	886,515
Deferred income taxes.....	438,035	192,799
Total funds from operations.....	\$10,418,016	\$ 8,418,572
Sale of fixed assets.....	94,649	70,296
Issue of share capital.....	61,647	—
	<u>\$10,574,312</u>	<u>\$ 8,488,868</u>
 <b>APPLICATION OF FUNDS:</b>		
Additions—		
Equipment leased to customers, net of disposals.....	\$ 6,274,180	\$ 1,854,581
Fixed assets.....	2,551,903	1,786,472
Decrease in long-term debt.....	1,403,352	1,772,746
Dividends paid.....	583,472	486,000
Goodwill on acquisition of subsidiary—written off.....	—	200,000
Other.....	5,861	42,884
	<u>\$10,818,768</u>	<u>\$ 6,142,683</u>
Decrease (increase) in working capital.....	\$ 244,456	\$ (2,346,185)
WORKING CAPITAL, BEGINNING OF YEAR.....	<u>12,707,496</u>	<u>10,361,311</u>
WORKING CAPITAL, END OF YEAR.....	<u>\$12,463,040</u>	<u>\$12,707,496</u>



Notes to

Consolidated Financial Statements

December 31, 1972

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the wholly-owned subsidiary, Finning Tractor (1959) Ltd.

Based on a price determined as of September 1, 1971, the Company acquired all the outstanding shares of G. M. Philpott Co. Ltd., which wholly owns G. M. P. Products Ltd., and of Cancal Properties Ltd. The consolidated financial statements include the assets and liabilities of these companies as at December 31, 1972 and 1971, and the results of their operations since September 1, 1971.

2. INVENTORIES

Inventory cost is on a specific item actual cost basis for equipment and a first-in, first-out basis for parts and supplies. Net realizable value has been used to determine market.

3. NOTES PAYABLE--BANK

At December 31, 1972, notes payable to bank is represented by \$13,994,230 in notes payable on demand and \$14,392,155 in bankers acceptances payable at various dates within 75 days after December 31, 1972. At December 31, 1971, this amount is represented by notes payable on demand. This debt is secured by the pledge of Demand Debentures of the Company in the principal amount of \$10,000,000 ranking next in priority to the First Mortgage Debentures, by an assignment of fire insurance, a general assignment of book debts, a pledge of notes receivable and a pledge of certain equipment rental agreements and by the guarantee of Finning Tractor (1959) Ltd. The Demand Debentures are secured on the same basis as the First Mortgage Debentures.

	1972	1971
First Mortgage Debentures .....	\$2,600,000	\$3,200,000
Other first mortgages .....	437,156	474,864
Other secured agreements .....	89,485	101,994
Note payable--bank .....	—	1,750,000
	\$3,126,641	\$5,526,858
Less --		
Current portion included in current liabilities .....	665,981	1,662,846
	\$2,460,660	\$3,864,012

The First Mortgage Debentures bear interest at 7½ % and are payable at \$600,000 per annum from 1973 to 1975 with the balance due in 1976. They are

secured by a trust deed which constitutes a first fixed charge on substantially all the fixed assets of the Company and on all the shares of its subsidiary, Finning Tractor (1959) Ltd., and by a floating charge on the undertaking, property and assets of the Company and Finning Tractor (1959) Ltd., and are guaranteed by Finning Tractor (1959) Ltd.

Other first mortgages on certain land and buildings bear interest from 7% to 10% per annum. Combined annual payments, including principal and interest, total \$84,618. Maturity dates of the various first mortgages range from 1974 to 1995.

Other secured agreements bear interest from 7% to 8% per annum. Combined annual principal payments total \$12,742 and these agreements mature in 1978. Also included in other secured agreements is a loan against the cash surrender value of a life insurance policy, bearing interest at 6% per annum, with no specific repayment terms.

5. CURRENCY CONVERSION AND COMMITMENTS  
Included in liabilities is \$4,861,684 (\$4,360,618 at December 31, 1971) payable in U.S. currency which has been converted to Canadian funds at par. The Company is committed to purchase \$3,000,000 in U.S. funds from June 20 to July 20, 1973 at an exchange rate of \$.99-13/32 Canadian per \$1 U.S.

6. SHARE CAPITAL

By certificate of the Registrar of Companies of British Columbia dated October 3, 1972, the authorized and outstanding Common Shares of the Company were subdivided on a two for one basis so that the Company is authorized to issue 10,000,000 Common Shares without nominal or par value (5,000,000 Common Shares at December 31, 1971).

The changes in the outstanding share capital during 1972 were as follows:

	Number of Common Shares	Dollars
Outstanding, Dec. 31, 1971.	1,944,000	\$8,564,887
Issued prior to Oct. 3, 1972 for cash on exercise of stock options .....	2,260	28,815
	1,946,260	\$8,593,702
Subdivision, Oct. 3, 1972 ...	1,946,260	—
Issued after Oct. 3, 1972 for cash on exercise of stock options .....	5,150	32,832
Outstanding, Dec. 31, 1972.	3,897,670	\$8,626,534

7. STOCK OPTIONS

In 1969 the Company established an employee stock option plan pursuant to which 194,400 Common Shares of the Company (after giving effect to the two for one subdivision) were reserved for issue upon the exercise of stock options granted to bona fide full-time officers and employees of the Company. Under the plan, the directors have granted options to purchase 84,000 of the 194,400 Common Shares to 17 employees, of whom six are directors and senior officers with options to purchase in the aggregate 54,000 Common Shares, and 11 are other employees with options to purchase in the aggregate 30,000 Common Shares. All the options granted are exercisable at \$6.375 per share on a cumulative basis as to 20% thereof by each employee during each of the five consecutive 12 month periods which commenced May 1, 1970 and they expire April 30, 1975. No option may be exercised prior to the end of six months following the granting thereof. If the holder of an option ceases to be employed by the Company his option thereupon terminates. As of December 31, 1972, options on 9,670 Common Shares had been exercised leaving 74,330 Common Shares subject to unexercised options.

Options to purchase the remaining 110,400 Common Shares reserved under the plan may be granted at prices not less than 90% of the higher of the last reported sale price of such shares on the Vancouver Stock Exchange or The Toronto Stock Exchange on the day immediately preceding that on which such options are granted.

8. RESTRICTIONS UNDER DEBENTURE TRUST DEEDS

The trust deeds securing the Demand Debentures referred to in Note 3 and the First Mortgage Debentures referred to in Note 4 contain certain restrictions including provisions that the Company will not permit net working capital to be less than \$12,500,000 and that the Company and any subsidiary will not, without the consent of the holder of the debentures, declare or pay any dividend which would reduce net working capital below \$12,500,000.

Net working capital is defined under the trust deeds to include the working capital as reflected in the consolidated balance sheet together with equipment leased to customers (\$13,666,172 at December 31, 1972 and \$10,899,378 at December 31, 1971) and other minor items. The defined net working capital

amounted to \$27,479,387 at December 31, 1972 and \$24,905,196 at December 31, 1971; accordingly \$14,979,387 of retained earnings was not restricted at December 31, 1972 and \$12,405,196 was not restricted at December 31, 1971.

9. PENSION PLAN

The independent consulting actuary for the employee pension plan estimates that the funds in the plan are more than adequate to meet the liabilities of the plan existing at December 31, 1971. In a report dated July 1972, the independent consulting actuary estimates that if a projection of estimated employees' future remuneration is introduced into the actuarial calculation of the amount required to provide pension benefits at retirement age, the unfunded past service cost was \$970,000 as of December 31, 1971. The Company is amortizing this past service cost over a period of 20 years commencing in 1972.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries directly or indirectly to the directors and senior officers of the Company during 1972 was \$419,275 and during 1971, \$381,715.

11. NET INCOME PER SHARE

Net income per share has been calculated on the following weighted average numbers of Common Shares outstanding:

	1972	1971
Before subdivision .....	1,945,336	1,944,000
After subdivision .....	3,890,672	3,888,000

The dilution of net income per share which would occur in the event that the unexercised options referred to in Note 7 are exercised is relatively insignificant.

12. SUBSEQUENT EVENTS

Subsequent to December 31, 1972, the Company executed first mortgages totalling \$1,500,000 to finance the construction of new facilities. These mortgages are payable over seven years in equal monthly payments with the interest at 2% per annum above the prime bank lending rate. As of December 31, 1972, costs for these facilities amounted to \$979,235 and were financed with current borrowings.

Auditors' Report

TO THE SHAREHOLDERS OF FINNING TRACTOR & EQUIPMENT COMPANY LIMITED:

We have examined the consolidated balance sheet of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARIES as of December 31, 1972, and the related consolidated statements of income and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income and source and application of funds present fairly the financial position of Finning Tractor & Equipment Company Limited and subsidiaries as of December 31, 1972, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.,  
Chartered Accountants

February 5, 1973, Vancouver, Canada

FINNING TRACTOR & EQUIPMENT COMPANY LIMITED

HEAD OFFICE	STOCK EXCHANGES
555 Great Northern Way, Vancouver 10, Canada	Vancouver and Toronto Stock Exchanges

AUDITORS	SOLICITORS
Arthur Andersen & Co. Chartered Accountants, Vancouver, Canada	Ladner Downs Barristers and Solicitors, Vancouver, Canada

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust Company  
Vancouver, Calgary, Winnipeg, Toronto  
and Montreal



## A Year of Continuing Growth

(Continued)

Parts and service operations showed a good increase in sales. Heavy demands taxed facilities and personnel and despite increased costs of overtime, recruiting and training, both departments showed a good profit performance.

During the year the parts and service sales force was enlarged to take advantage of the increasing parts and service opportunities.

Parts inventory procedures are performing more effectively and are resulting in better formulas for forecasting demand. Utilization of parts inventories was improved but some shortages at the factory level did occur.

Good and steady progress was made in repair services and during the year we developed a body of experience and knowledge in the area of total service contracts. Tangible evidence of our capability and expertise in this regard came when we were awarded a contract to overhaul and repair a large fleet of right-of-way maintenance equipment for the British Columbia Railway.

Trained mechanics were in short supply all year long and although our service training efforts took up most of the slack, our growth was somewhat limited. It is interesting to note that in a time of industry-wide shortage, our company was able to attract more than its share of available manpower.

In divisional activity, Caterpillar announced production of a hydraulic excavator and deliveries are expected shortly. The Crane and Excavator Division maintained a good share of market as the large volume of municipal sewer work continued to create a demand for hydraulic excavators. The division continued its conversion of excavators to hydraulic log loaders for which there is a good market, particularly in the big timber of the coast.

Grove hydraulic cranes have proven to be a valuable addition to our traditional lines. This product is well accepted and has application principally in the Lower Mainland with its population density.

*Another recent Caterpillar innovation is exclusive Dystred "cushion track" for large wheel loaders. It is designed to reduce tire wear and maintenance costs in rock work and to improve machine flotation and stability. Dystred was introduced into B.C. on wheel loaders at the Kootenay Canal project.*



*The 500,000 kilowatt Kootenay Canal development resulted in a major sale of Caterpillar equipment. This night shot is illuminated by a Towerlite mobile unit which lights up to five acres of level terrain, virtually shadow free.*







*Caterpillar's largest wheel loader, the 992, takes 10 cubic yards of material in one bite; a load big enough to fill an average-sized dump truck. Several of the big 550 horsepower units are used in open pit copper mines in the interior of the province.*



*Versatility and mobility are the key to the growing popularity of the smaller Caterpillar wheel loaders marketed by the Light Industrial Division, such as this 1 1/4 cubic yard model.*

*A 941B track loader loads topsoil for a residential subdivision in the Okanagan. A new marketing opportunity will arise in mid-1973 when Caterpillar introduces a line of smaller track loaders, wheel loaders and tractors.*





## A Year of Continuing Growth

(Continued)

Engine Division sales showed a reasonable growth over the previous year in a very competitive market. Marine installations continue to account for the largest share of volume. The fishing industry enjoyed one of its best years on record and sales reflected this development. Industrial labour disputes dampened demand for new towboat construction but 1973 is expected to see renewed activity. Smaller Caterpillar and Perkins marine engines have gained increased acceptance as pleasure boat power.

Industrial engine and electric set sales to forestry, construction and mining showed satisfactory gains. The ability to design and assemble its own control equipment is a big factor in the division's successful systems approach to engine and electric set installations.

Deliveries of smaller Caterpillar machines handled by the Light Industrial Division increased in all markets, chiefly in construction. The growth has been in the wheel loader line due to the mobility and versatility of this type of equipment. The new Caterpillar products to be available in mid-1973 and

Parts service on major projects remote from branch or depot operations is provided through large trailers. The trailers house a stock of selected replacement parts and exchange assemblies.



"A stitch in time saves nine" is the basis of the P-M (Preventive Maintenance) Check Plan. Experienced servicemen regularly inspect customers' machines and report any indications of possible problems. Repairs can be made before serious failure.

The company was awarded a contract to repair and overhaul all right-of-way maintenance equipment operated by the British Columbia Railway. The work is done at Prince George.





## A Year of Continuing Growth

(Continued)

discussed later in this review, will be marketed by this division.

The Lift Truck & Systems Division successfully increased its share of the lift truck market. Product re-design by Caterpillar is receiving good customer response. A new series of electric lift trucks promises good potential now that the machines are being imported from the United Kingdom to overcome the price disadvantage that resulted from the higher tariff on machines from the United States.

Lift truck parts sales are on the increase. A good parts volume base is developing as the machine population grows. The demand for repair services is outgrowing available space; steps are being taken to rectify this situation.

The Air Products Division, formerly the G. M. Philpott companies, merged well into the divisional organization and had an outstanding year. Gardner-Denver compressors and drills are sold basically into construction. Development of a "tank drill," a compressor mounted on a military-type chassis, has proven successful in logging road construction.

The company's flexibility in financing continues to be a big factor in the marketing program. Further refinement of programs for financing the equipment we sell is now being studied.

Much was done to meet new regulations for safety, noise pollution and emission control. Workmen's Compensation Board standards have been met with the installation of Roll Over Protection Structures on all new equipment. Although auxiliary steering is not yet mandatory, we have installed this safety device on all new wheel loaders, skidders, graders and off-highway trucks with approval of the B.C. Department of Mines and the Department of Commercial Transport.

Since late 1971 we have been sound-proofing operator cabs with lead and foam rubber insulation. This has reduced machine noise to one-sixteenth of its former level and has eliminated the need for the operator to wear ear protectors.

As to emission control, all Caterpillar engines meet standards now being enforced and, as a matter of fact, with the exception of two models, conform to the advanced requirements set for 1975. The two models not qualifying will be modified well before the required date.

(Continued on page 22)

*A big order for the Engine Division was the sale of 48 Porta-Lec electric sets to an industrial equipment distributor in Britain. The units were shipped to London by a chartered DC8 jet.*





*Two Grove hydraulic cranes, of 80 and 45-ton capacity, easily lift 32-ton, 105-foot long precast reinforced concrete beam into place on industrial building in Vancouver.*



*Gardner-Denver rock drills were used in construction of natural gas pipeline right-of-way through the rugged Coquihalla Pass.*

*The M.V. Galena which provides ferry service across Upper Arrow Lake in the Kootenays is powered by four Caterpillar engines. Two of the engines were overhauled by company mechanics in a three-week period without a break in service.*





## A Year of Continuing Growth

(Continued)

A new 15,700 square foot building in Vernon was completed at the close of the year. Parts and repair facilities have been greatly increased to meet customer requirements in the Okanagan area. Indicative of the growth of the Vernon operation is the fact that staff has almost doubled in the last 18 months. A new 18,000 square foot building for the Air Products Division, east of the present Vancouver complex on Great Northern Way, will be ready for occupancy in March. This will almost double the size of the division's present facilities. In addition to these construction projects, major expansion was completed at Prince George and Kamloops.

Of the new and expanded facilities opened in 1971, the Houston operation is performing well ahead of expectations following a somewhat troubled start when integrated forest companies in the area experienced production problems. Expanded facilities at Cranbrook got into full operation in 1972 and have provided much needed space to meet increasing business from logging and mining companies.

In mid-year the company took delivery of an Alouette II helicopter for use in the Coastal area and to supplement the other aircraft, an amphibian Beaver and a twin-engine Cessna. Together the three aircraft logged 158,731 miles. Late in the year the Beaver was equipped with skis and is flying out of Inuvik in the Northwest Territories.

Operations in the Mackenzie Valley area of the Northwest Territories, although expensive, continued to be successful. Centre of the NWT operations is Inuvik, where we have established full sales, parts and repair services with satellite parts and service depots located at Norman Wells and Fort Simpson.

The Mackenzie Valley offers encouraging long term potential, particularly in view of the current aggressive development of road and rail links through northern British Columbia.

A new two-year contract was signed with the International Association of Machinists and Aerospace Workers, effective November 15, 1972. This agreement continued the record of negotiations without a work stoppage since union certification in 1951.

Although 1972 was the busiest year on record, planning for the future continued and the company ended the year with well-balanced inventories, capable personnel and adequate financial resources.

*A stretch of the Mackenzie Delta in the Northwest Territories. The company increased its facilities and services in the Mackenzie region in 1972 and is now represented in Inuvik, Fort Simpson and Norman Wells.*





*This man-made island rises out of the Beaufort Sea 100 air miles northwest of Inuvik. Caterpillar equipment was used in the big dredging operation. If the experimental island withstands the ravages of Arctic winter storms, it and others to follow will serve as drilling platforms for oil and natural gas exploration.*



*Company personnel from Vancouver and Inuvik discuss Caterpillar equipment performance and Finning support services with project superintendent.*





## A Year of Continuing Growth

*(Continued)*

Looking ahead, 1973 will be a year of new Caterpillar product introduction. Delivery is expected shortly of the first model in what will be a full line of hydraulic excavators. A wheeled skidder is already in the field and a larger model is scheduled for later in the year. These skidding machines, a new tree harvester now in production and a feller buncher prototype round out the logging line and permit a complete systems approach to the cutting and harvesting of pulpwood and Interior sawlogs.

A new marketing challenge will come in mid-year when the first of Caterpillar's entry in the small machine market is delivered. This new line includes a track-type tractor, a wheel loader and a track loader. These machines are smaller than those Caterpillar is currently manufacturing and will be used in sewer and water line installations, residential and industrial site development. They may also find application in mill yards and other materials handling jobs. The small machine market is highly competitive; however, much of the groundwork for merchandising this new line was finalized in 1972 and a complete sales promotion program is in preparation. Although deliveries may be somewhat limited in 1973, the company is prepared to take full advantage of this new opportunity.



*An Alouette II helicopter was acquired in mid-year to service customer operations in the Coastal area. This new aircraft materially reduced costs per customer contact.*

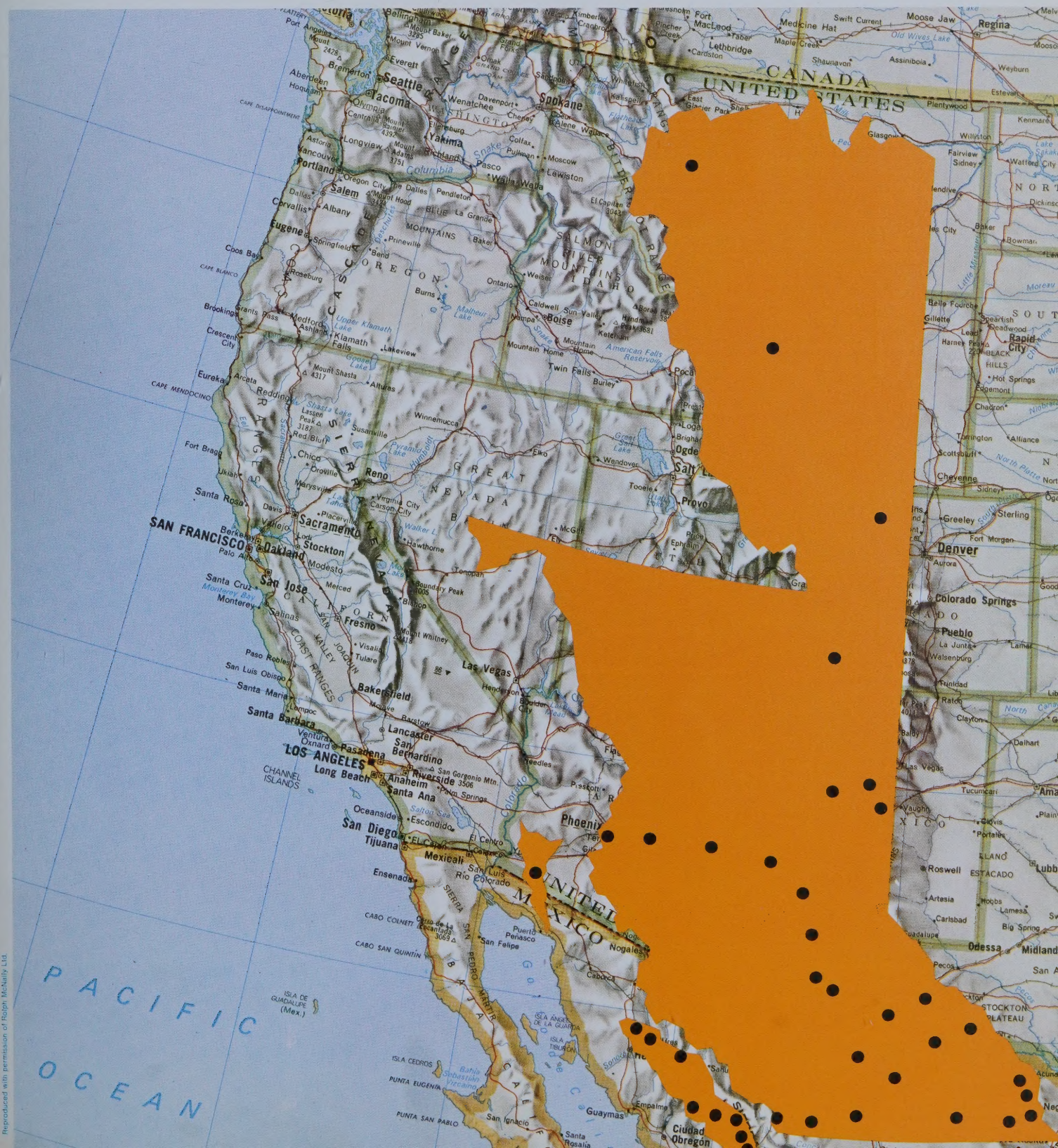
*Dawson Creek at Mile 3 on the Alaska Highway, operations centre for the Peace River area and support centre for activities in the Northwest Territories.*





**REPRESENTATION:** Finning is represented in 38 locations throughout British Columbia and the Northwest Territories and also provides on-site support services at several major projects. The distance between our most widely separated operations, Cranbrook and Inuvik, is 1,676 air miles. To illustrate this more graphically, we have superimposed the area the company serves on the map of the United States. As you see, it stretches from the 49th parallel down into Mexico.

**LOCATIONS:** Campbell River, Chilliwack, Clearwater, Cranbrook, Dawson Creek, Elkford, Fernie, Fort Nelson, Fort Simpson, Fort St. James, Fort St. John, Golden, Houston, 100 Mile House, Inuvik, Kamloops, Lake Cowichan, Mackenzie, Mica Creek, Nanaimo, Nelson, Norman Wells, Port Alberni, Port Hardy, Port McNeill, Prince George, Prince Rupert, Princeton, Queen Charlotte City, Quesnel, Revelstoke, Sparwood, Terrace, Tofino, Vancouver, Vernon, Victoria, Williams Lake.





**FINNING**

**FINNING TRACTOR & EQUIPMENT COMPANY LIMITED**